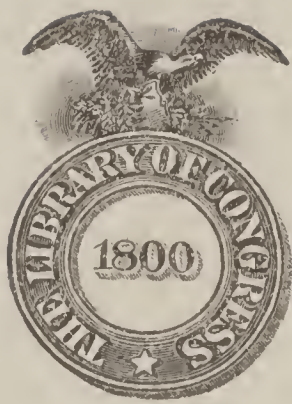


HD
9544
.L3
copy 2

FT MEADE
GenColl



Class H77.5544

Book 13

copy 2

2

BEFORE THE UNITED STATES ANTHRACITE
COAL COMMISSION

EMPLOYES EXHIBIT NUMBER_____

29
188

PROFITS OF ANTHRACITE
OPERATORS

Presented by
W. JETT LAUCK

On behalf of
John L. Lewis, President
Philip Murray, Vice-President
F. P. Hanaway, International Representative
Percy Tetlow, Statistician

John Dempsey } Committee Representing
Thomas Kennedy } Districts 1, 7 and 9
Chris. J. Golden }

Of the
United Mine Workers of America

WASHINGTON
1920

D. of B.
AUG 24 1920

BEFORE THE UNITED STATES ANTHRACITE
COAL COMMISSION

EMPLOYEES EXHIBIT NUMBER_____

PROFITS OF ANTHRACITE
OPERATORS

Presented by
W. JETT LAUCK

On behalf of

United Mine Workers of America

WASHINGTON

1920

PROFITS OF ANTHRACITE OPERATORS

In the anthracite industry the principal mining companies have to a certain extent concealed the bulk of their profits by transferring their product at an arbitrary price to separately incorporated selling departments. Although these subsidiary corporations show by far the larger gross margins of profit on sales of anthracite, it is significant that the net income of seven representative mining companies during the period 1916-1918 ranged from 20.4 per cent. to 36.6 per cent. on their capital stock outstanding. As contrasted with the period 1912-1914 this was an increase in net income over the pre-war period from a minimum of 14.2 per cent. to a maximum of 18.9 per cent. In the case of net income per ton of output there was an advance from 22.1 cents in 1912-1914 to 37.5 cents in 1916-1918, an average annual increase of 69.7 per cent. Expressed in terms of dollars, the total net income of these companies during the period under consideration advanced from an aggregate of \$29,354,989 for the period 1912-1914 to \$55,528,849 for the period 1916-1918, an increase of \$26,173,860, or 89.2 per cent. In other words, their average annual profits during the war were nearly double their yearly profits for the pre-war period.

The seven companies under consideration, it should be noted, include three which market their product through separately incorporated selling agencies. The immense profits shown for these companies, therefore, represent only a fraction of their actual earnings, the bulk of the profit being taken by the selling companies. Two of these latter companies, for example, since their organization have paid annual dividends at an average rate of from 20 to 30 per cent. on their capital stock outstanding.

In connection with the above data, it is of interest to note that the available figures for 1919 indicate even larger earnings for this period than the profits reported in 1918. In the case of two representative anthracite operators there was an increase in net profits in 1919 over 1918 of \$777,046, or 17.6 per cent. It would appear, therefore, that the financial ability of the operators to pay increased wages to their employees is even greater at the present time than was indicated by their returns for 1918.

An outstanding feature of the anthracite industry is the pre-

dominating influence of the anthracite railroad companies and their affiliated mining companies both in the ownership of coal deposits and in the actual tonnage produced each year. Excluding coal used as fuel at the mines, the so-called railroad companies in 1916 produced in the aggregate 52,945,573 gross tons, or 75.8 per cent. of the total commercial production for the year. In addition to the amount thus produced, the railroad coal companies purchased from independents 2,691,123 tons. Thus the quantity the railroad coal companies controlled for market, not counting coal in storage, was 55,636,696 tons, or 79.6 per cent. of the total commercial production for the year.¹

In the case of the numerous so-called independent producers, or those not controlled by the anthracite railroads, the total commercial production in 1916 was 16,935,190 gross tons, making 24.2 per cent. of the whole. However, as just noted, 2,691,123 tons of this was purchased by the railroad coal companies, leaving only 14,244,076 tons, or 20.4 per cent., that was marketed through independent channels.¹

Of the anthracite mining companies, there are seven, whose income statements are published in the standard financial manuals of Poor and Moody, including six of the so-called railroad companies and one independent producer. In the table attached the annual profits of these companies have been analyzed for the period 1912-1918. During the seven years included in this tabulation, these seven producing concerns had a combined aggregate output of approximately 325,000,000 gross tons of coal, or about 56 per cent. of the total tonnage of anthracite produced by all companies during that time. It is significant to note that production during the war period was only 11.6 per cent. greater than during the three normal pre-war years of 1912 and 1914, while the combined income of these companies for the war period increased 89.2 per cent. over the pre-war years.

Of the seven anthracite companies studied, three of the most important in volume of output, the Lehigh Valley Coal Company, the Delaware, Lackawanna and Western Company and the Delaware and Hudson Company are coal producing concerns exclusively and market their entire output through separately incorporated selling agencies, the profits of which are seldom made public. This method of maintaining separate producing and selling departments makes it possible to conceal the actual profits realized. For the producing company, as pointed out

¹ Federal Trade Commission's report on "Coal," No. 2, Anthracite.

above, sells coal to the sales department at an arbitrary price, the bulk of the profit being taken by the sales department.

Thus these figures do not get into the hands of any curious consumer who may wish to know why he pays \$14.50 for a ton of coal that it costs only \$4.50 to produce. By this method also the operators are enabled to make two profits on each ton of coal, one for the producing company and one for the selling company, the capital stock of which represents absolutely no investment, usually being a stock dividend by the parent company.

War Profits of a Corporation Marketing Its Own Product

The income account of the Philadelphia and Reading Company may be taken as indicative of the actual increase in profit during the war years, as this is one of the most important companies publishing accounts for the entire period, which markets its own coal. It is interesting to observe that this company, which had no such selling device for concealing profits as that described above, was able to make a much smaller amount on each ton than did the other companies prior to the war, but that the war furnished it an opportunity to jump its profits into their class. The following table shows the earnings of the company for the years 1912-1918:

Year	Net Income	Per Cent. on Capital Stock	Net Income Per Ton
1912.....	\$171,576	2.1	\$0.017
1913.....	1,139,592	14.2	0.106
1914.....	715,390	8.9	0.082
1915.....	60,572	0.8	0.007
1916.....	2,463,790	30.8	0.246
1917.....	5,436,633	68.0	0.472
1918.....	4,150,162	51.9	0.359

The total tonnage produced by this company was only approximately 11 per cent. greater for the war period than it was for the pre-war period, while the profit realized increased nearly 500 per cent. This finds its expression in an increase in the profit per ton of 435 per cent.

Another company reporting which markets its own product is the Temple Coal Company, and while the income of this corporation for 1918 was unobtainable, it is apparent that it realized a tremendous increase in profits during the war, its income in 1917 being nearly twice as great as the average income for the pre-war years.

How Excessive Profits Are Concealed

The income figures discussed are the net profits available for paying dividends upon capital stock, after the deduction of every conceivable charge for depreciation, depletion, sinking funds, and Federal income and excess profits and local taxes, as well as interest on indebtedness and other items.

The amounts deducted from gross income under the heading of "depletion" are almost always excessive, and are the favorite form of "smoke screen" used by these corporations to conceal their profits. These charges are usually based upon the value of the coal property, and when the accumulated "depletion reserve" approaches the total value of the coal land, a re-valuation at a greatly advanced figure takes place. The Board of Directors of the Lehigh Coal and Navigation Company reported to its stockholders in 1912 that a depletion charge of 5 cents a ton would pay for all of its coal land, the unworked as well as the exploited, in twenty years.¹ The Federal Trade Commission in its report on anthracite coal production costs, 1919, shows the average charge for depletion made by eight railroad companies and eleven independent operators to be 17.4 cents per ton. A profit of over 12 cents a ton is thus tucked away in depletion reserve and made the basis of a further issue of stocks or other securities in later years.

A fair idea of what profits the sales departments or companies of the anthracite railroad companies might show, if available, is contained in the financial statement of the Lehigh Valley Coal Sales Company, which since 1911 has been the selling agent for all coal produced by the Lehigh Valley Coal Company, which, in turn, is owned by the Lehigh Valley Railroad Company. The history of the organization of the selling company is also of interest, and the statement as contained in "Moody's Analyses" for 1919 is quoted, to wit:

LEHIGH VALLEY COAL SALES CO.

Incorporated under New Jersey laws, Jan. 22, 1912. Has a contract to purchase from the Lehigh Valley Coal Company all coal mined, purchased or otherwise acquired by the Lehigh Valley Coal Co. and affiliated companies.

Capital Stock: Authorized, \$10,000,000; outstanding, \$9,778,435; par, \$50. The original stock outstanding was \$6,060,800, which was sold to the stockholders of the Lehigh Valley R. R. Co. at par in 1912, latter using the 10% extra dividend declared at that time. In Nov. 1913, an extra dividend of 25% was declared payable Jan. 17, 1914, with option of using same in subscribing, at par, to a new stock issue of 25% of full shares outstanding Nov. 17, 1913. Divi-

¹ 62d Congress, 3d Session. House Doc. 1442, page 37.

dend payments have been made as follows: 1912, 2½% in Oct.; 1913, 10% (quarterly Jan.); 1914, 2½% in Jan., and 25% extra in stock; April, 1914, to April, 1917, 2½% quarterly; in July, 1917, quarterly rate increased to 4% and paid 30% extra with option of using latter in subscribing at par to a new stock issue of 30% of full shares outstanding June 1, 1917; Oct. 1917, to Jan. 1919, 4% quarterly. On May 16, 1918, a special dividend of approximately 10% was paid in U. S. Liberty Loan 4% Bonds.

(*From Moody's Analyses of Investments*, 1919, p. 1818.)

An interesting sidelight upon earnings of the coal sales department of the Delaware, Lackawanna and Western Railroad Company is contained in the following excerpt from a brief filed by the Attorney-General of the United States in the Supreme Court, October term, 1914, in a proceeding entitled "United States, Appellant, versus The Delaware, Lackawanna and Western Railroad Company and the Delaware, Lackawanna and Western Coal Company:

"The Coal Company (The Delaware, Lackawanna and Western Coal Company) commenced business on August 2, 1909, with a capital stock of \$6,590,700. By December 31, 1912, in addition to having paid dividends aggregating \$2,141,961.25, it had accumulated a surplus of \$4,498,382.75."

The brief further points out that the coal company was organized by the officers and directors of the railroad company, the vice-president of the railroad company being president of the coal company, and the stock of the coal company being almost entirely owned by the majority stockholders in the railroad company. The stock was subscribed in June, 1909, upon the payment of a 50 per cent. dividend to stockholders in the railroad company, and the coal company stock was entirely paid for by this dividend.

Further information as to the immense profits made by the coal company is contained in *Moody's Analyses of Investments*, of 1919, which states with regard to this company that:

"Dividends have been paid as follows: 1910 to date, 10% per annum in quarterly (Jan.) payments; in April, 1913, 20% extra was paid; in May, 1914, 10% extra; in July, 1915, 50% extra; in July, 1916, 10% extra and in June, 1917, a special dividend of \$25 per share (50%) was paid. In Dec., 1917, paid special dividend of \$20 per share payable \$7.50 in British Government bonds and \$12.50 in Liberty 4s. In July, 1918, paid special dividends of \$15 per share payable in Liberty Loan 3d 4¼s at par."

It appears, therefore, that the dividend disbursements made by this company from its organization in 1909 to December 31, 1918, amounted to a total of 300 per cent. on its capital stock outstanding, including 230 per cent. in cash dividends, 55 per cent. in Liberty Bonds, and 15 per cent. in British Government Bonds.

It is worthy of note, also, that the coal company's surplus on June 30, 1915, the latest period for which data are available, was \$5,973,595, or more than 90 per cent. of its entire capital stock outstanding.

The above figures are indicative of the enormous profits which have been exacted from the public by the railroad coal companies through their separately incorporated sales organizations.

Over-Capitalization and Future Profits

For a complete understanding of the extent of profiteering in the anthracite industry one other fact in the financial side of the companies should be mentioned. The Philadelphia and Reading Coal and Iron Company with \$8,000,000 capital stock produced nearly three times as much coal each year as did the Lehigh Coal and Navigation Company with three times as much capital stock—\$29,173,950 being the capitalization of the latter company.

This clearly indicates that the Lehigh Company is either grossly over-capitalized or that it is holding an immense area of anthracite coal land out of use for future exploitation. In either case the actual reported rate of return upon investment is no indication of the actual amount which the public is paying for the real capital actually being employed. In the first case profits are being realized upon a heavily watered capitalization. In the other case the public is being charged for the use of property which is being reserved for the making of future profits.

Pre-War Earnings Contrasted with War Profits

The following table shows the profits of four of the leading anthracite companies from several different angles:

Company	Average Annual Net Income		Per Cent. Earned on Capital Stock		Earnings Per Ton	
	1912-14	1916-18	1912-14	1916-18	1912-14	1916-18
Lehigh Coal and Navig't'n Co.	\$2,381,447	\$2,985,279	8.9	10.9	\$0.584	\$0.639
Lehigh and Wilkes-Barre Coal Co. . . .	3,236,507	3,732,216	35.1	40.5	0.604	0.692
Lehigh Val. Co.	630,122	2,401,575	32.1	122.2	0.073	0.260
Philadelphia and Reading Co..	675,519	4,016,862	8.4	43.6	0.068	0.364
Total	\$6,923,595	\$13,135,932	15.1	27.4	0.332	0.489

The income of these four companies for the war years was approximately twice that earned by them during the pre-war years, both in dollars and in per cent. of capital stock. The most profitable year was 1917, with a combined net income for the four companies, after the deduction of all taxes, of \$16,662,387, more than twice the pre-war income, or an average percentage on capital stock of 34.2. In the case of at least two of the companies the pre-war earnings were exorbitant, and, as already pointed out, the Lehigh Coal and Navigation Company earnings should probably be interpreted as being two or three times the given rate, because of the probable over-capitalization of the company. This is borne out by the fact that its earnings per ton were high before the war.

The income tax return of six smaller companies, published at the request of the United States Senate, show the same general tendencies. The net income of these six concerns in 1916 was \$572,476, equal to a return of over 57 per cent. of their capital stock. In 1917 the net earnings, after the deduction of income and excess profits taxes, were nearly twice as large, \$1,081,550, equal to a return of 94.5 per cent. on the capital stock. It is interesting to note that, although requested to furnish data for all companies earning over 15 per cent. in 1917, the Treasury Department did not include in the statement any of the great companies mentioned above as earning over that rate.

Profits of Anthracite Companies in 1919

In the case of the post-war profits of anthracite operators, the available data indicates even larger earnings since the armistice than the extraordinary profits earned by these companies during the war. As but few of the operators have made public the results of their operations for 1919, it is impossible to show the net profits for this period for any large number of anthracite companies. It is possible, however, to draw some conclusions as to the trend of profits in 1919 from the annual reports of two representative companies, the Lehigh Coal and Navigation Company and the Delaware and Hudson Company. By reference to the table below it will be seen the net profits of the former company were \$69,794, or 2.5 per cent. greater in 1919 than in 1918. In the case of the Delaware and Hudson Company the net profits of the coal department show an increase in 1919 over 1918 of \$707,256, or 43.9 per cent. For the two companies combined the net profits in 1919 were \$777,046 greater than in 1918, an increase of 17.6 per cent.

PROFITS OF ANTHRACITE COAL COMPANIES IN 1918 AND 1919

Company	1918	1919	Increase 1919 Over 1918	
			Amount	Per Cent.
Lehigh Coal & Navigation Co....	\$2,805,089	\$2,874,883	\$69,794	2.5
¹ Delaware & Hudson Co.....	1,610,572	2,317,824	707,252	43.9
Total.....	<u>\$4,415,661</u>	<u>\$5,192,707</u>	<u>\$777,046</u>	<u>17.6</u>

¹ Coal mining department.

TABLES

PROFITS OF ANTHRACITE COAL COMPANIES, 1912-1918
As Shown by their Published Financial Statements.

NET INCOME BY THE YEARS

NAME OF COMPANY	1912	1913	1914	1915	1916	1917	1918	Total Net Income for Period 1912-1914	1916-1918	Per Cent Increase War Period Over Pro- War Period
<i>Railroad Companies</i>										
Lehigh Coal & Navigation Co. ¹	\$2,288,256	\$2,372,511	\$2,483,579	\$2,298,340	\$2,786,348	\$3,362,100	\$2,805,089	\$7,144,346	\$8,955,837	25.4
Lehigh & Wilkes-Barre Coal Co. ¹	2,485,971	4,423,051	2,800,500	2,730,929	2,695,469	5,431,899	3,069,281	9,709,522	11,196,649	15.3
The Lehigh Valley Coal Co. ¹	1,151,317	227,603	511,446	882,329	886,872	2,431,465	3,886,189	1,890,366	7,204,526	281.1
The Delaware & Hudson Co. ²	586,037	1,296,692	963,989	1,243,971	738,393	2,925,000	1,610,572	2,846,718	5,273,965	85.3
Delaware, Lackawanna & Western ²	2,111,897	1,270,020	2,355,562	1,536,916	2,899,309	4,321,268	3,626,710	5,737,479	10,847,287	89.1
Phila. & Reading Coal & Iron Co. ¹	171,576	1,139,592	715,390	60,572	2,465,790	5,436,633	4,150,162	2,026,558	12,050,585	494.6
Total Railroad Companies.....	\$8,795,054	\$10,729,469	\$9,830,466	\$8,753,057	\$12,472,181	\$23,908,665	\$19,148,003	\$29,354,989	\$55,528,849	89.2
Temple Coal Co. ¹	733,168	902,996	1,151,515	967,667	953,959	1,691,324	(b)	.....	.....	....
Total all companies combined.....	\$9,528,222	\$11,632,465	\$10,981,981	\$9,720,724	\$13,426,140	\$25,599,989	\$19,148,003	\$29,354,989	\$55,528,849	89.2

CAPITAL STOCK

CAPITAL STOCK								Percentage of Net Income to Capital Stock						
NAME OF COMPANY	1912	1913	1914	1915	1916	1917	1918	1912	1913	1914	1915	1916	1917	1918
<i>Railroad Companies</i>														
Lehigh Coal & Navigation Co.....	\$26,557,950	\$26,587,650	\$26,587,650	\$26,587,650	\$26,587,650	\$28,736,500	\$29,173,950	8.6	8.9	9.3	8.6	10.5	11.7	9.6
Lehigh & Wilkes-Barre Coal Co.....	9,212,500	9,210,000	9,210,000	9,210,000	9,210,000	9,210,000	9,210,000	27.0	48.0	30.4	29.7	29.3	59.0	33.3
The Lehigh Valley Coal Co.....	1,965,000	1,965,000	1,965,000	1,965,000 ^a	1,965,000	1,965,000	1,965,000	58.6	11.6	26.0	44.9	45.1	123.7	197.8
Phila. & Reading Coal & Iron Co.....	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	2.1	14.2	8.9	0.8	30.8	68.0	51.9
Temple Coal Co.....	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	(b)	33.3	41.0	52.3	44.0	43.4	76.9	...
Total.....	\$47,935,450	\$47,962,650	\$47,962,650	\$47,962,650	\$47,962,650	\$50,111,500	\$48,348,950	14.2	18.9	16.0	14.5	20.4	36.6	28.8

In computing per cent of total income to capital stock, figures rendered comparable by

¹ Net Income available for dividends.

² Net Revenue.

(a) Stock was increased to retire bonds. Increase not considered.

(b) Figures for 1918 not available.

eliminating income of companies not showing capital stock.

PROFITS OF ANTHRACITE COAL COMPANIES, 1912-1918—Continued

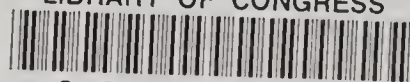
As Shown by their Published Financial Statements.

PRODUCTION (TONS)										Per Cent Increase War Period Over Pre-War Period
NAME OF COMPANY	1912	1913	1914	1915	1916	1917	1918	Total Production for Period 1912-1914	1916-1918	
Railroad Companies										
Lehigh Coal & Navigation Co.	3,673,945	4,324,562	4,240,777	4,094,662	3,822,166	5,042,427	5,144,175	12,239,284	14,008,768	14.5
Lehigh & Wilkes-Barre Coal Co. (a)	5,180,450	5,678,373	5,207,047	4,738,745	4,903,623	6,896,034	4,388,221	16,065,878	16,187,878	.8
The Lehigh Valley Coal Co.	8,504,401	9,210,137	8,130,121	8,347,106	8,364,191	9,603,864	9,690,793	25,844,659	27,658,848	7.0
The Delaware & Hudson Co.	6,438,555	7,170,553	7,400,695	8,100,767	7,186,390	8,643,824	9,059,228	21,009,803	24,889,432	18.5
Delaware, Lackawanna & Western (a)	9,233,230	9,244,763	9,427,906	9,113,144	9,868,297	11,558,476	10,850,474	27,905,898	32,277,247	15.7
Phila. & Reading Coal & Iron Co. (a)	10,194,690	10,748,603	8,747,643	8,083,487	10,006,688	11,517,904	11,572,061	29,690,936	33,096,653	11.5
Total Railroad Companies	43,225,279	46,376,991	43,154,188	42,477,911	44,151,345	53,262,529	50,704,952	132,756,458	148,118,826	11.6
Temple Coal Co.	1,730,247	1,841,966	1,981,694	1,914,135	1,460,966	1,425,155	(b)	. . . . .	. . . . .	. . . . .
Total all Companies Combined	44,955,526	48,218,957	45,135,882	44,390,046	45,612,311	54,687,684	50,704,952	132,756,458	148,118,826	11.6
NET INCOME PER TON										Per Cent Increase War Period Over Pre-War Period
NAME OF COMPANY	1912	1913	1914	1915	1916	1917	1918	Total Net Income Per Ton for Period 1912-1914	1916-1918	
Railroad Companies										
Lehigh Coal & Navigation Co.	(Cents) 62.3	(Cents) 54.9	(Cents) 58.6	(Cents) 56.1	(Cents) 73.0	(Cents) 66.7	(Cents) 54.5	(Cents) 58.4	(Cents) 63.9	9.4
Lehigh & Wilkes-Barre Coal Co.	48.0	77.9	53.8	57.6	55.0	78.8	69.9	60.4	69.2	14.6
The Lehigh Valley Coal Co.	13.5	2.5	6.3	10.6	10.6	25.3	40.1	7.3	26.0	256.2
The Delaware & Hudson Co.	9.1	18.1	13.0	15.4	10.3	33.8	17.8	13.6	21.2	55.9
Dela., Lackawanna & West. R. R. Co.	22.9	13.7	25.0	16.9	29.4	37.4	33.4	20.6	33.6	63.1
Phila. & Reading Coal & Iron Co.	1.7	10.6	8.2	0.7	24.6	47.2	33.9	6.8	36.4	435.3
Total Railroad Companies	20.3	23.1	22.8	20.6	28.3	44.9	37.8	22.1	37.5	69.7
Temple Coal Co.	42.2	49.0	58.1	50.6	65.3	118.7	. . . . .	. . . . .	. . . . .	. . . . .
Total all Companies Combined	21.2	24.1	24.3	21.9	29.4	46.8	37.8	22.1	37.5	69.7

(a) Tons sold.

(b) Not available.

LIBRARY OF CONGRESS



0 015 984 458 4